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C O N F I D E N T I A L LA PAZ 002269

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E.O. 12958: DECL: 08/21/2016  
TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [BL](#)  
SUBJECT: HYDROCARBONS MINISTER BASHES BRAZIL

REF: LA PAZ 1157

Classified By: Amb. David N. Greenlee for reasons 1.4 (b) and (d).

11. (C) Summary: Hydrocarbons Minister Soliz Rada told the DCM on August 21 that Brazil's strong presence in Bolivia is the root of many of the nation's problems, particularly in the hydrocarbons sector. Soliz said that Bolivia needs to develop alternate markets to Brazil, including Argentina and Paraguay. He affirmed news reports that Bolivia's state oil company YPFB will seek a working capital loan from the Central Bank. The GOB hired 200 auditors to review oil company investments. Audit results will be used as the basis for negotiating new contracts. The government is looking for ways to compensate private investors, including Transredes, for shares which the GOB aims to acquire (reftel). End summary.

Minister Bashes Brazil

12. (C) Hydrocarbons Minister Andres Soliz Rada told the DCM on August 21 that Brazil's strong presence in Bolivia is the root of many of the nation's problems in various sectors, including hydrocarbons, the environment, agriculture, road construction, and banking. He said that Bolivia desires a new balance with its larger neighbor, and that Brazil should follow Argentina's example and agree to pay more for Bolivian gas. He claimed that although the relationships between the Bolivian and Brazilian Presidents and Hydrocarbons Ministers are good, the rapport between Bolivia's state oil company YPFB and Brazil's semi-state company Petrobras is poor. He asserted that Bolivia is receiving an insufficient return on its resources because of Petrobras' conflict of interest. He explained that Petrobras and other international oil companies operating in Bolivia are selling Bolivian gas to related companies overseas at non-market prices, thus depriving the Bolivian state of its fair share of revenues.

13. (C) Soliz is not worried about Brazil's threat to close its market to Bolivian gas, because, he said, Bolivia has opportunities to sell gas to Argentina and Paraguay and gas-fired electricity to Chile. He explained that although

Bolivia and Argentina had signed an agreement for Bolivia to export up to 27 million cubic meters per day, the two countries are now discussing exports of up to 50 million.

#### GOB Will Seek Central Bank Loan for YPFB

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14. (C) Soliz confirmed news reports that YPFB would seek a loan from the Central Bank to use as working capital, which, he said, the state company needed to cover the three-month gap between collecting money due it from sales and paying the percentage of tax revenue due to the regional governments. Soliz said that the GOB would seek to change the Central Bank Law, but argued that such change would not damage macroeconomic stability.

#### Audits and Contract Negotiations Ongoing

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15. (C) Soliz said that the GOB had hired 200 people to conduct audits of the oil companies to determine how much the companies had invested in Bolivia. The information from the audits would be used to negotiate new contracts with the companies, he said. Compensation would be based on whether or not companies had invested the amounts that they were contractually obligated to invest and on how much of their investments the companies had already recouped. Soliz claimed that accusations against the companies arising from the audits would be dealt with during the negotiations rather than in the press.

#### Negotiations for Shares

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16. (C) Soliz reiterated that the nationalization process is about neither "confiscation nor exclusion." He said that negotiations with Transredes to acquire majority ownership of the company are moving forward (reftel). He said that YPFB would offer to take over liability for the Inter-American Development Bank and Andean Development Corporation loans held by Transredes as partial payment for Transredes' shares. He understood that Transredes wanted to maintain operating control, but said that the GOB would propose contracting a third, neutral operator upon which both sides agreed.

17. (C) Comment: Minister Soliz was friendly towards the U.S. during the meeting, downplaying U.S. interest in the sector, while demonizing Brazil and expressing discontent with Spain. Like us, U.S. investors are pleased that Brazil and Petrobras are taking the lead on pushing the GOB to soften its nationalization policy. While GOB rhetoric and symbolism on hydrocarbons nationalization have at times been heavy-handed, the GOB's actions to date have respected the need to negotiate and compromise. Soliz took pains in his meeting with us to emphasize that the GOB is behaving reasonably with private industry and does not intend to expropriate private assets. End comment.  
GREENLEE